STATEMENT

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1. Introduction

A country insisting on countertrade clearly places upon the foreign seller the burden of marketing the product it gives in exchange for an import. This entails costs for the foreign seller that in most cases must be borne by the country insisting on countertrade. Thus, countertrade may be viewed as a way of lowering the prices of the product given in exchange by the countertrading country. We should ask: “Why does the countertrading country not find it more efficient to lower its prices and to sell in world markets for money?”

2. Reasons for countertrade

It is widely reported, and seems plausible to believe, that the prime motivation for countertrade is the initiator’s scarcity of foreign exchange. However, this only leads to the more fundamental question of how countertrade adds to the country’s total power to acquire foreign goods. The insistence of Eastern European countries on countertrade over a sustained period suggests that they believe that countertrade does provide additional opportunities to acquire desired imports. Alternatively, foreign goods may be obtained through additional credits in a buyback arrangement in which the debt is serviced by supplying to the Western exporter of productive facilities a portion of the future outputs those facilities produce.

Countertrade may permit export expansion by concealing the reduction in price from competitors and from customers. Thus, it provides a method of segregating markets so that incremental sales can be made without price reductions to existing customers. Countertrading countries restrict the goods that may be taken in as counterpurchases by foreign sellers to those that would not ordinarily be sold in world markets. (This “additionality” requirement may be accomplished by a restricted list of goods or by excluding normal buyers of given products.) Sporadic sales of such goods may indeed prove to be incre-

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mental, but it is doubtful that, in the long run, competitors will accept a sustained increase in market shares that would accrue to the countertrading countries from this way of lowering price. If, in addition, the commodity is one for which the countertrading country has regular customers in other countries, information about the effect of lowering the price in countertrade operations will eventually seep through to them and they are likely to be unwilling to continue to accept price discrimination against them.

A second possibility is that countertrade adds to a country's power to acquire foreign goods by saving the cost of investing in marketing facilities abroad. If the countertrading country continuously exports certain goods, countertrade normally would be economically inferior to investing in foreign marketing facilities for those goods. On the other hand, the incompatibility of unstable world markets with the quantitative planning common in centrally planned economies may cause some exports to be sporadic, thereby increasing the attraction of countertrade. Even in these cases, however, it would appear advantageous for the centrally planned economy to establish its own trading company-type arrangements, unless its volume of international trade is very low. Nevertheless, uncertainty about the extent to which changes in political policy in Western countries will alter the conditions of market access (e.g., recent U.S. measures with respect to trade with Poland and the Soviet Union) may diminish the attractiveness of investment in foreign marketing facilities. Fear of such policy changes may help to explain a reluctance to make marketing investments.

A somewhat different set of circumstances may characterize industrial compensation or buyback agreements. As suggested above, such arrangements are, in effect, both a means of borrowing and a means of providing for future debt service in kind. The necessary credits for financing the equipment or the installation usually are provided not by the Western supplier but by some financial institution, most commonly by the selling country's equivalent of our Export-Import Bank. Both equipment and payback transactions may provide additional business for a seller if the buyback method of debt service makes the loan more creditworthy than it otherwise would be and thus facilitates a transaction that otherwise would not occur. One would think that official lending institutions would not regard these transactions as completely independent, but would take them into account in determining the general creditworthiness of the "borrowing" country and that such credits would not turn out to be entirely additional, despite the mortgaging of future exports to them. This possibility seems all the more probable in view of the recent concern over the ability of many borrowing countries to manage their debt service.
3. U.S. policy towards countertrade

The general case for an American policy opposing the continuation or, at least, the expansion of countertrade rests, first, on the inefficiency of bilateral trading arrangements and, second, on doubts that most countertrade will prove to be truly additional. On the other hand, U.S. public policy with respect to domestic and international trade has been, with certain broad exceptions such as antitrust regulations, to leave to each firm the right to determine which kinds of transactions are in its economic interest. Overall, this is probably the best policy to apply to countertrade: each potential U.S. participant should be left free to decide whether the advantages of countertrade are sufficiently attractive to warrant engaging in it.

The case against a policy of positive support for countertrade seems very strong. One form of support, export credits, has already been used, although not so as to discriminate systematically in favor of countertrade and against ordinary monetary sales. Other forms of support which have been proposed include direct or indirect public subsidies, such as favorable tax treatment or protection against risks of countertrade transactions.

Two reasons have been suggested for government subsidy of countertrade by U.S. enterprises. One is the desire to offset the additional costs to U.S. firms engaged in countertrade. This argument clearly should be rejected on the ground that the difference in the cost of countertrade and monetary exchange represents the different net advantages of the two kinds of trade, both from the standpoint of the nation as well as from that of the participating firms. Such a subsidy would unjustifiably discriminate against the more advantageous money trade. A consequence of encouraging bilateral arrangements might be to decrease the volume of multilateral trade. Furthermore, government encouragement of countertrade through subsidies could easily become competitive among the Western countries and thereby increase the danger of bilateralism.

A second argument for subsidizing countertrade is that such trade would be additional. It has been suggested that public support might be particularly advantageous when directed to the licensing of technology. Firms would then be able to reap benefits from diffusion of technology which otherwise would not be profitable.

In assessing this claim, one should ask, first, if it is necessarily in the public interest to encourage the diffusion of U.S. technology on competitive terms, let alone at bargain rates. If several U.S. firms have similar technology and are competing abroad to licence it to foreign users, government intervention to create a monopoly may extract better terms from foreign licensees or purchasers than the competitors will obtain acting individually. This viewpoint has a long history and over the centuries many governments have tried to prevent the diffusion of technology from their national territories. Most recently, extensive efforts at such restrictions have related to technology with military applica-
tions, although the United States has tried to use such restraints more broadly vis-à-vis the Soviet Union. Similarly, it has been reported that the Japanese recently have refused to permit the foreign licensing of new military technology. The difficulties that governments have encountered in enforcing restrictions as a tool to enhance the national return from new technology are not encouraging. Such interventions are cumbersome and run very much counter to the spirit of free U.S. enterprise. This does not mean, however, that public policy should go to the opposite extreme and encourage technological diffusion. If it does not pay the owner of a particular technology to accept the lower return for its use from counterpurchases or buyback arrangements, subsidization would appear to serve no social purpose.

More generally, if there is an additional reason for subsidizing the export of technology, it would appear to apply to exports generally. That is, the vendor of any particular good could achieve additional sales with the aid of public subsidies. Subsidies for countertrade, then, must be justified as they apply to each transaction.